

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8109

BILL NUMBER: SB 366

DATE PREPARED: Feb 14, 2001

BILL AMENDED: Feb 13, 2001

SUBJECT: Septic Tank Tax Credit.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill establishes a tax credit for the owners of homes served by sewage disposal systems. The bill requires that an owner to be eligible for the credit must repair or replace a sewage disposal system and must obtain any appropriate permits for the system. The credit equals 30% of the total repair or replacement costs and is applied against the owner's adjusted gross income tax liability in four equal annual amounts. The owner may carry over excess credit to succeeding taxable years.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue will have some additional administrative expenses associated with revising tax forms, instructions, and computer programs to accommodate this new credit. These expenses will be covered under the Department's existing budget.

Explanation of State Revenues: (Revised) *This bill creates a sewage disposal systems tax credit beginning in taxable years after December 31, 2001. The revenue loss from this credit is estimated to range from \$450,000 to \$14.7 M in FY 2003. This credit could continue to grow by this amount annually until it reaches its full utilization in year four ranging from \$1.8 M and \$58.8 M for FY 2006 and years thereafter.*

There are approximately 800,000 sewage disposal systems in Indiana. According to staff at the State Department of Health, assuming a life expectancy of on-site septic systems of 20 years, the annual failure rate in Indiana is 1.2% to 3.5%. Given these percentages, the annual number of systems that fail is estimated at 9,600 to 28,000.

Assuming that the average cost to repair a system is estimated at \$650 and that the average cost to replace a system is estimated at \$7,000, total annual costs for system repair and/or replacement is estimated at between \$6.2 M ($\$650 \times 9,600$) and \$196 M ($\$7,000 \times 28,000$).

The credit equals 30% of costs incurred, or \$1.8 M to \$58.8 M. The credit is to be applied in four equal amounts against the owner's adjusted gross income tax liability for the taxable year in which the repair or replacement occurs and for the next three succeeding tax years. Spreading the costs over a four-year period would give an annual revenue loss to the state ranging from \$450,000 to \$14.7 M. (An individual taxpayer would be eligible for a tax credit ranging from \$195 to \$2,100. The tax credit spread out annually for an individual taxpayer would range from \$48.75 to \$525.)

Based on these estimates, the impact for the first year would equal a decrease in revenues ranging between \$450,000 to \$14.7 M. The second year of impact would equal the first year plus another cohort of applicants for the credit, resulting in a range of between \$900,000 and \$29.4 M. The third year of impact would equal the second year plus another cohort of applicants for the credit, resulting in a range of between \$1,350,000 and \$44.1 M. The fourth year and subsequent years of impact (not considering inflation) would equal the third year plus another cohort of applicants, resulting in a range of between \$1.8 M and \$58.8 M.

Owners may carry over excess credit to succeeding years up to three years after the year the credit was first taken. The credit does not apply to new residences.

The impact could be higher if the existence of the credit encourages property owners to repair or replace their systems.

The credit would reduce individual and corporate income taxes which are deposited in the State General Fund and the Property Tax Replacement Fund beginning in FY 2003 and years thereafter.

Explanation of Local Expenditures: Local boards must inspect the repaired or new septic tanks. This provision will increase costs to local entities by an indeterminable amount.

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: County Boards of Health or Health Departments.

Information Sources: The number of sewage disposal systems was based on testimony provided by William Grant, LaGrange County Health Department to the Septic Systems Subcommittee, October 19, 2000, p. 4; Howard Cundiff, Director, Consumer Protection, Indiana State Department of Health provided information on the number of system failures in testimony to the Septic Subcommittee, August 7, 2000, p. 2; Average cost to replace a septic system is based on testimony provided by Don Jones, P.E., Professor and Extension Engineer, Purdue University (testimony given to the Septic Systems Subcommittee of the Environmental Service Council, Sept. 6, 2000, p. 3).